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Central Intelligence Agency

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Washington, D.C. 20505

26 November 1986

MEMORANDUM FOR: Peter Keller  
EUR/RPE  
Department of State

FROM: [REDACTED]

Chief, Eastern Regional Economic Issues Branch  
East European Division  
Office of European Analysis

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SUBJECT: Comments on [REDACTED] Papers  
on East European Balance of Payments and  
Joint Ventures

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# I. Balance of Payments

We generally agree with draft report on recent trends and the short-term outlook for East European balance of payments. The paper accurately depicts last year's reversal of positive trends in Eastern Europe's hard currency trade performance, current account balances, and indebtedness recorded in the early 1980s and the continuation of these downward trends in 1986. [REDACTED]

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We offer the following points, with the numbers keyed to the paragraphs:

36. According to our estimates, the GDR also recorded a fall in its current account balance in 1985. [REDACTED]

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38. While we agree that Bulgaria's positive trade balances with Middle Eastern countries has been responsible for surpluses in its overall hard currency trade, we do not believe that this

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trade is as crucial for Czechoslovakia. [REDACTED]

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40. In addition to considering the industrial capability of each East European country when making trade demands, the USSR will also weigh the overall economic and financial health of each country, as it seems to have done with Poland. [REDACTED]

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41. We believe that the USSR probably has already reduced the proportion of its agricultural purchases from Eastern Europe paid for in convertible currencies. [REDACTED]

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42. The more than \$300 million fall in Bulgaria's trade surplus with developing countries last year also contributed to its trade deficit with non-communist countries. [REDACTED]

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43. We recommend clarification of Czechoslovakia's loans in 1986. Prague had one new borrowing worth \$100 million through September. The remainder of the figure -- some \$329 -- is refinancing of older loans. [REDACTED]

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44. 1) While it is difficult to estimate the GDR's convertible currency current account surplus, our estimate for 1985 is \$800-\$900 million. 2) We recommend the following insertion: "...this loss is unlikely to be completely offset by increased exports of other products..." [REDACTED]

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46. 1) In explaining Hungary's declining hard currency trade surplus in 1985 and 1986, the paper should mention the importance of the narrowing trade surplus with the socialist countries (primarily the USSR) under special hard currency trade arrangements and the decline in earnings from oil reexports, both of which have been key props for Hungary's hard currency trade in recent years. The widening trade deficit this year also stems from further deterioration in Hungary's terms of trade and a sharp rise in imports. 2) We estimate that Budapest's convertible currency current account deficit will be near \$1 billion this year, compared to \$457 million in 1985. 3) The figure of \$150 million in trade losses due to Chernobyl' reflects initial estimates that appeared in the Hungarian press and is high compared to subsequently released figures. Our estimate of losses, derived from official Hungarian statistics, is around \$30 million. 4) The figure of \$1149 million for new publicized borrowings through September may underestimate total borrowing, which is becoming harder to chart as Hungary pursues more bank-to-bank borrowing as an alternative to widely-publicized syndications. [REDACTED]

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official creditors and to secure new credits from commercial creditors. [REDACTED]

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TABLE VI. Our figures for convertible currency trade in January-June 1986 (\$ millions): Hungary: Exports 2008; Imports 2384; Balance -375. Poland: Exports 2953; Imports 2518; Balance 435. [REDACTED]

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## II. Joint Ventures

We have a more pessimistic view for the future of East European joint ventures with the West. [REDACTED]

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[REDACTED] In brief, we believe there are fundamental conflicts in the goals of Western firms and Eastern regimes regarding joint ventures. These different goals, along with the intrinsic difficulties of doing business in Eastern Europe, especially as compared with newly industrializing countries and developing countries, are likely to discourage Western businesses from significant participation. [REDACTED]

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We have the following specific comments:

Paragraph 3.1.c: We feel the Polish joint venture law, despite its highly publicized changes, remain among the most restrictive in Eastern Europe and are unlikely to attract many Western firms. [REDACTED]

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The paragraph on Czechoslovakia can be updated. In mid-1986, Prague reached an agreement with a West European firm to form its first joint venture. [REDACTED]

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1 - AC/EURA/EE

1 - C/EURA/EE/EREI

1 - EURA/EE/EREI CHRONO

1 - EURA/EE/EREI PRODUCTION

2 - EURA/EE/EREI

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5 - CPAS/IMC/CB

2 - EURA/PS

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